



Jamie M. (Mike) Tan
Associate Director
Federal Regulatory

SBC Communications, Inc.
1401 I Street NW., Suite 1100
Washington, D.C. 20005
Phone 202 326-8859
Fax 202 408-4809
E-Mail: jt看@corp.sbc.com

August 1, 2002

VIA ELECTRONIC FILING

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 96-116, 98-170,
02-33, 95-20, 98-10 and NSD File No. L-00-72.

Dear Ms. Dortch:

On August 1, 2002, Whit Jordan (of BellSouth), David Hostetter, Jeff Brueggeman, and I (all on behalf of SBC Communications) met with Diane Law Hsu, Acting Deputy Chief, Telecommunications Access Policy Division, Wireline Competition Bureau, and Paul Garnett and Vickie Byrd of the Wireline Competition Bureau regarding the above referenced proceedings. The purpose of this meeting was to discuss the joint proposal by SBC and BellSouth to reform the method by which universal service contributions are assessed to carriers and recovered from end users. Attached is a copy of ex-parte presentation materials used during the meeting.

In accordance with Section 1.1206 of the Commission's rules, this letter and the attached are being filed in each of the above referenced dockets via the Commission's ECFS system. Should you have any questions regarding the attached, please do not hesitate to contact me by whatever means are most convenient for you.

Sincerely,

A handwritten signature in black ink, appearing to read "J. M. Tan". The signature is stylized with a large, looped "J" and a long, sweeping underline.

Attachments

Cc: Diane Law Hsu
Paul Garnett
Vickie Byrd

Primary Concerns with the Existing Mechanism

- Current contribution base is not broad enough to capture technology changes or market realities. Interstate telecommunications activity is not decreasing, but *covered* revenues may be.
- Current contribution mechanism distorts competition.
 - » DSL has a 7 percent price disadvantage compared to cable modem and other competing services.
 - » Internet telephony and information services that provide e-mail and instant messaging are replacing traditional interstate telecommunications services, but are not included in the contribution base.
 - » CLECs and other non-dominant providers have *total* pricing freedom to control whether any revenues are declared interstate and to determine how USF recovery charges are assessed.
- Customer demands for service bundling will continue to grow and are not easily accommodated by the current mechanism or the use of safe harbors.

SBC BellSouth *Joint Proposal*

- Assesses a flat contribution on every retail service an end user purchases that provides interstate telecommunications capability. Includes packet services and services to access the Internet, which is a type of public network.
 - » All universal service contributions are applied *directly* based on a service provider's retail relationships, rather than indirectly based on wholesale relationships.
 - » The Commission should conclude that an information service provider is a *provider of interstate telecommunications* when it offers an information service.
 - » Contributions are assessed on information services regardless of facilities ownership. This reduces the likelihood of regulatory arbitrage that may occur if information services are not comparably assessed.
 - » Customers are generally accustomed to paying charges that depend on the number of services purchased and the number of retail relationships established.

SBC BellSouth *Joint Proposal*

- Assesses separate contribution charges for the access component and the interstate transport component of each distinct service.
 - » Reflects market reality that customers may purchase services from multiple providers or bundled service from a single provider.
 - » Assesses an equivalent contribution regardless of whether the access component and interstate transport component are purchased separately or as a bundle.
 - » Competitively neutral because it treats wireline services, wireless services and information services in a comparable manner.
 - » Providers are able to calculate their contributions based upon information they use to bill their customers for the services purchased.

SBC BellSouth *Joint Proposal*

- Bases contributions on the number and capacity of retail services provided to end user customers.
 - » Higher bandwidth services generate a larger contribution because they represent more interstate telecommunications activity.

| | |
|--------------------------------|---|
| One-way paging = 1/2 | Services \leq 64 Kbps = 1 |
| Asymmetrical \leq 6 Mbps = 1 | Services $>$ 64 Kbps, $<$ 1.544 Mbps = 2 |
| Asymmetrical $>$ 6 Mbps = 2 | Services \geq 1.544 Mbps, $<$ 45 Mbps = 5 |
| Centrex \leq 64 Kbps = 1/9 | Services \geq 45 Mbps = 40 |
 - » Interstate service providers enjoying the most success in the marketplace *and their customers* provide the most support to universal service.

SBC BellSouth *Joint Proposal*

- Establishes a uniform line item USF recovery charge.
 - » Providers may recover their contributions only from their end user customers.
 - » An explicit USF recovery charge is still permissive. However, if a provider elects to recover its contributions through an explicit line item charge, it must do so for all types of end user customers. “All or nothing” application of the line item charge limits gaming and competitive manipulation of the charge.
 - » The line item charge *must* be equal to the contribution factor.
 - » The contribution factor should include a safe harbor that allows providers to recover a reasonable amount for uncollectibles and administrative costs. A provider deducts the safe harbor from the total billed contribution amount before submitting its contribution to USAC.

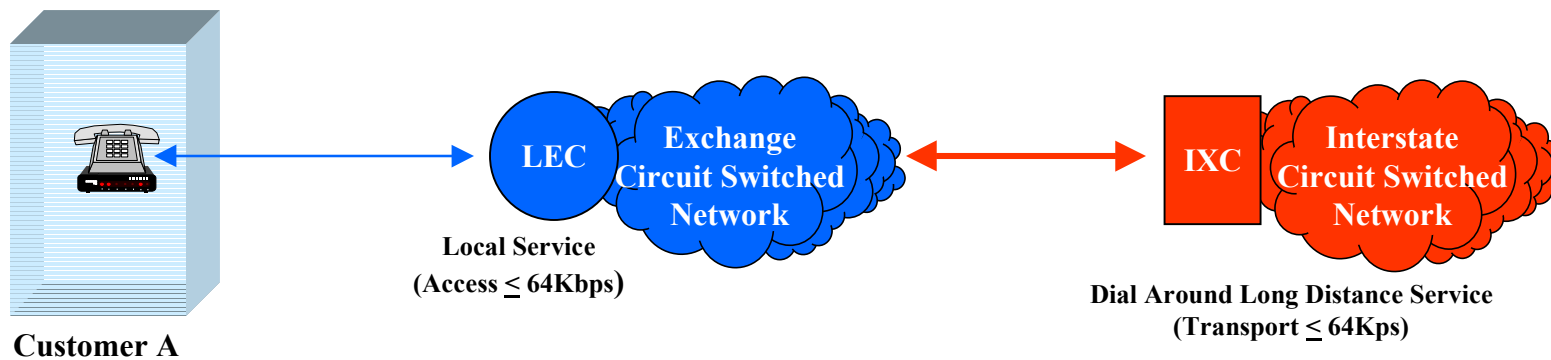
Benefits of the SBC BellSouth *Joint Proposal*

- Expands the contribution base, which enhances the stability of the fund. An expanded contribution base is less sensitive to technology changes and reduces the likelihood that customers will migrate to services that do not contribute.
- Minimizes the burden imposed on any particular category of provider or type of customer. Customers can control their USF recovery charges through their purchasing decisions.
- Eliminates artificial competitive advantage of broadband and information services.
- No need to address whether IP telephony and other new services are telecommunications services for universal service contribution purposes.
- No need to cap the residential contribution because the proposed funding mechanism spreads contributions across the maximum number of retail services that provide interstate telecommunications capability.

The CoSUS Proposal Is Bad Public Policy

- The CoSUS proposal is unlawful. Allowing IXC's to contribute on a *de minimis* amount of the interstate telecommunications services they provide is not equitable and nondiscriminatory, as required by section 254(d).
- The CoSUS proposal does not provide a stable contribution base and sidesteps one of the most important universal service issues facing the Commission – the rapid migration of customers to new technologies that are not included in the funding base.
- The CoSUS proposal creates a new implicit subsidy by capping the contribution assessed on residential customers and relying upon business customers to pay for the residual. This repeats the two most significant PICC design flaws — class of service distinctions and an artificial cap on the charges.
- The CoSUS proposal unfairly burdens LEC customer relationships. Historically, IXC's were the sole interstate contributors to universal service. Yet IXC's now claim that *any* contribution responsibility for their interstate long distance services is unacceptable.

Diagram 1



Customer A — Services Purchased

Local Service (Access ≤ 64Kbps)

Dial Around Long Distance Service (Transport ≤ 64Kbps)

Contribution Assessment

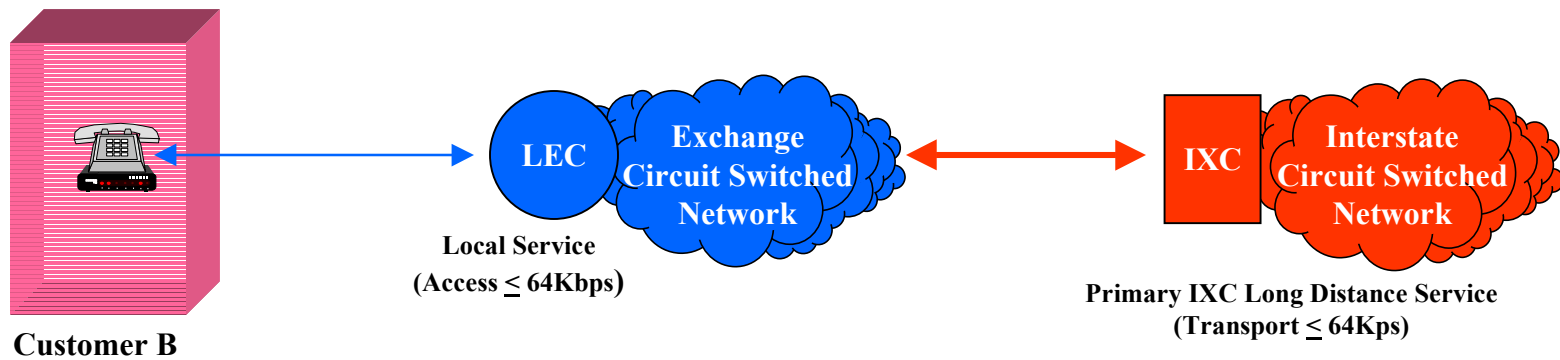
LEC = \$.55 (NOTE)

IXC = Assessed if used

Total assessments = \$.55

NOTE: Preliminary estimates based on 2001 data produce a charge in the range of \$.50 - \$.55.

Diagram 2



Customer B — Services Purchased

Local Service (Access ≤ 64Kbps)

Primary IXC Long Distance Service (Transport ≤ 64Kps)

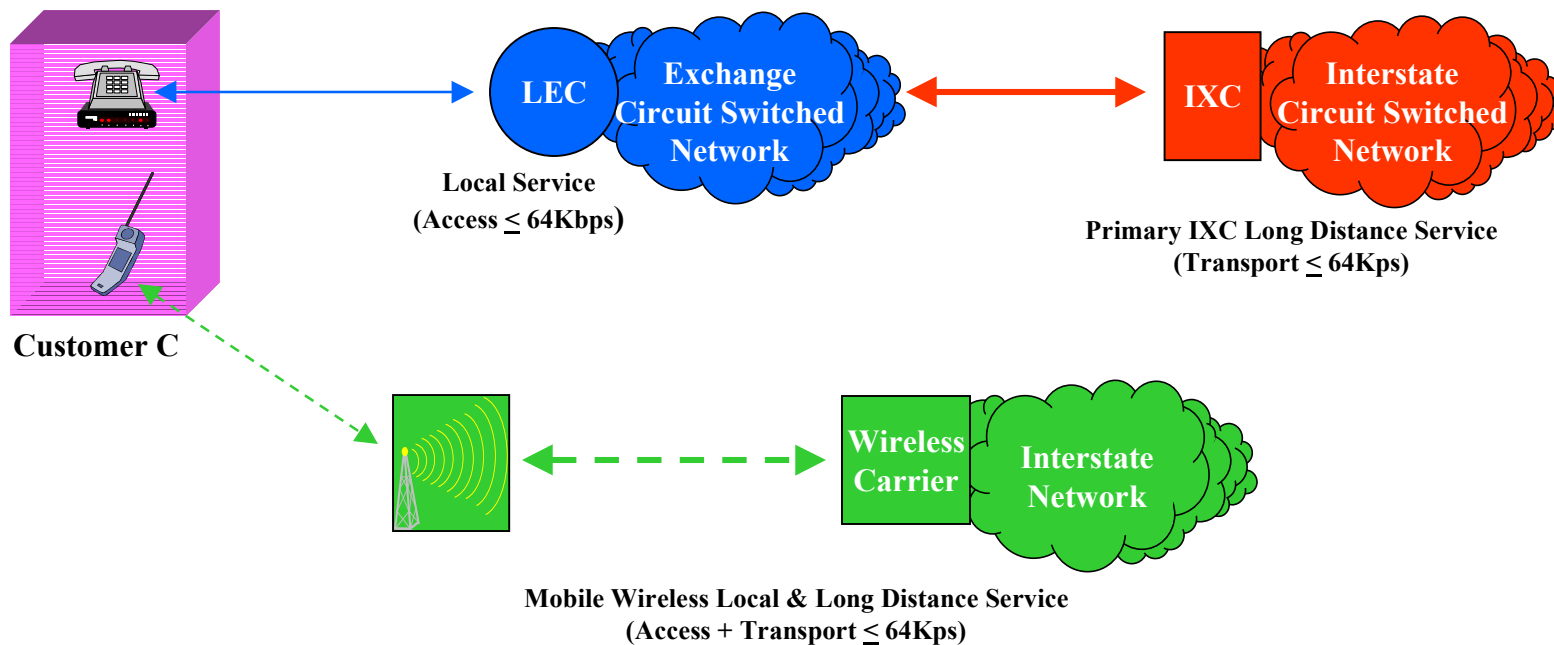
Contribution Assessment

LEC = \$.55

IXC = \$.55

Total assessments = \$1.10

Diagram 3



Customer C — Services Purchased

Local Service (Access $\leq 64\text{Kbps}$)

Primary IXC Long Distance Service (Transport $\leq 64\text{Kps}$)

Mobile Wireless Service (Access + Transport $\leq 64\text{Kps}$)

Contribution Assessment

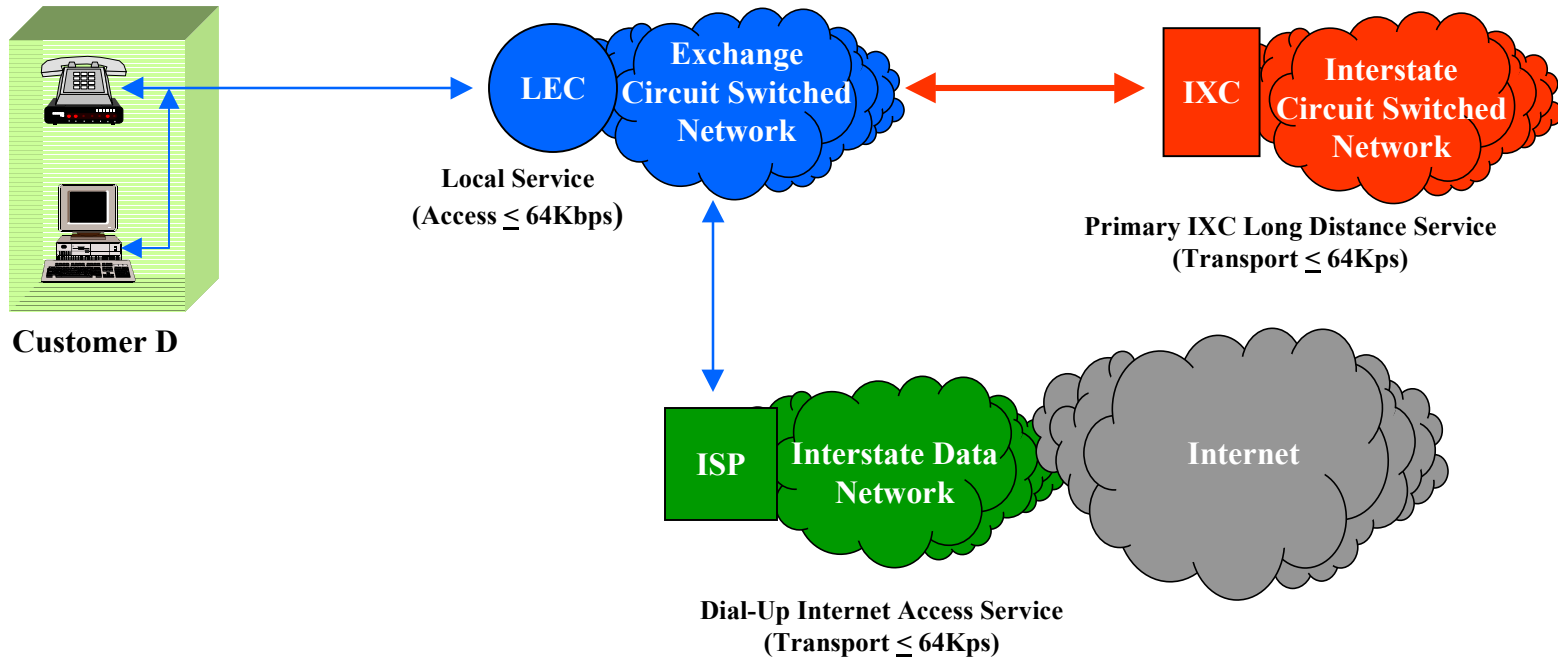
LEC = \$.55

IXC = \$.55

Wireless carrier = \$1.10

Total assessments = \$2.20

Diagram 4



Customer D — Services Purchased

Local Service (Access ≤ 64Kbps)

Primary IXC Long Distance Service (Transport ≤ 64Kbps)

Dial-Up Internet Access Service (Transport ≤ 64Kbps)

Contribution Assessment

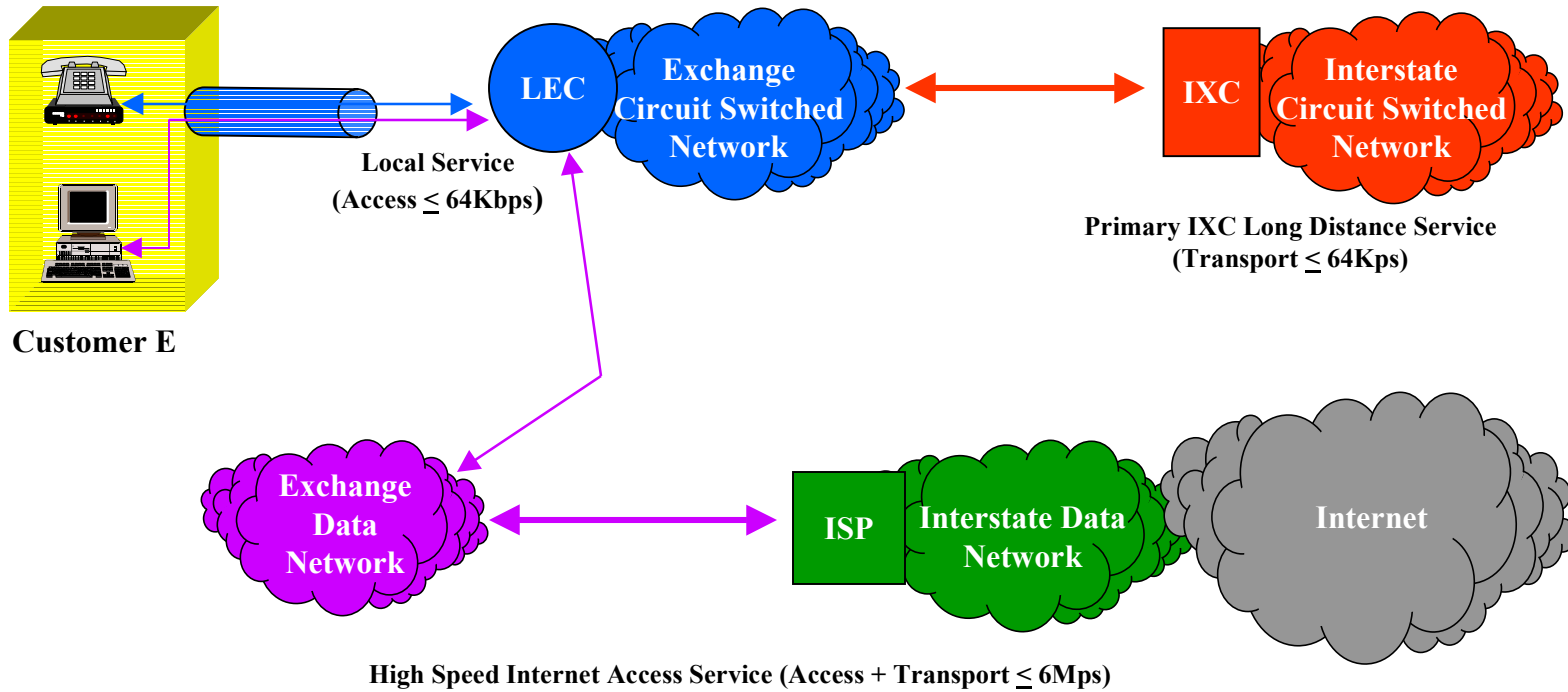
LEC = \$.55

IXC = \$.55

ISP = \$.55

Total assessments = \$1.65

Diagram 5



Customer E — Services Purchased

Local Service (Access $\leq 64\text{Kbps}$)

Primary IXC Long Distance Service (Transport $\leq 64\text{Kps}$)

High Speed Internet Access Service (Access + Transport $\leq 6\text{Mps}$)

Contribution Assessment

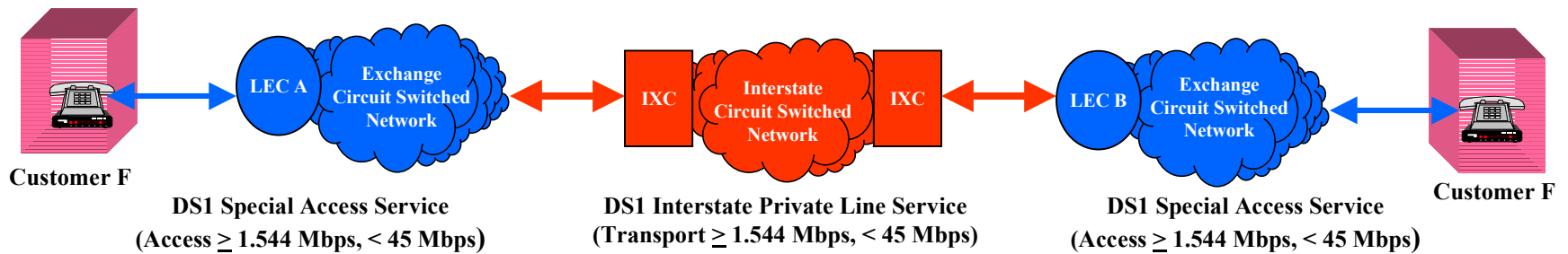
LEC = \$.55

IXC = \$.55

ISP = \$1.10

Total assessments = \$2.20

Diagram 6



Customer F — Services Purchased

DS1 Special Access (Access ≥ 1.544 Mbps, < 45 Mbps)

DS1 Interstate Private Line Service (Transport ≥ 1.544 Mbps)

Contribution Assessment

LEC A = \$2.75

LEC B = \$2.75

IXC = \$2.75

Total assessments = \$8.25